

November 19, 2001

The Honorable Richard B. Cheney
President of the Senate
U.S. Capitol
Washington, DC 20510

Dear Mr. Cheney:

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) directed the Medicare Payment Advisory Commission (MedPAC) to report on Medicare's potential use of consumer coalitions—community-based, non-profit coalitions that provide information or negotiate on behalf of Medicare beneficiaries. Specifically, the legislation required MedPAC to recommend whether the Secretary should conduct a demonstration of these coalitions and, if so, how. Based on the information described below, the Commission puts forth the following recommendation:

Given the scarcity of resources for conducting Medicare demonstrations, the Secretary should not fund a demonstration of Medicare consumer coalitions.¹

Background

In January 2000, the National Council on the Aging (NCOA) released a report proposing a federally funded demonstration program to test consumer coalitions for Medicare.² According to the proposal, local, non-profit organizations would run coalitions consisting of individual Medicare beneficiaries. These coalitions would offer voluntary membership, perhaps with a nominal annual fee, and beneficiaries could terminate their membership at any time. The NCOA's report suggested two potential models for coalitions. The first—information coalitions—would provide information to members about Medicare and Medicare supplemental options; help members choose among Medicare+Choice plans, Medigap options, long-term care insurance options, and prescription drug program alternatives; and protect beneficiary rights.

¹Commissioners' voting results:

Yes: Feezor, Hackbarth, Loop, Muller, Nelson, Newhouse, Newport, Raphael, Reischauer, Rowe, Smith, Stowers, Wakefield

Absent: Braun, Burke, DeBusk, Rosenblatt

²Firman, J., Greenberg, J., McNeill, D., and Kendall, D. The Feasibility of Medicare Consumer Coalitions. Report by The National Council on the Aging, Washington, DC, to The Retirement Research Foundation. January 2000.

The second—purchasing coalitions—would negotiate with health plans and insurers on behalf of coalition members for lower premiums and improved benefits. Supporters initially envisioned that organizations embodying information coalitions could expand into performing the functions of purchasing coalitions but later decided that the two models should be entirely separate to avoid conflict of interest.

According to its advocates, the information coalition model would likely incorporate the current beneficiary information infrastructure, which includes both information from the Centers for Medicare and Medicaid Services (CMS) and information and services provided through the state health insurance assistance programs (SHIPs). The SHIPs are a national network—found in every state, the District of Columbia, Puerto Rico, and the Virgin Islands—of federally funded, volunteer-based state programs offering one-on-one counseling and assistance to Medicare beneficiaries and their families. While the SHIPs are one of the entities that offer many of the same services as the proposed information coalitions, they do not negotiate with insurers or perform any of the functions associated with purchasing coalitions. SHIP counseling is free and is provided primarily through telephone and face-to-face sessions, public education presentations, and local media advertising. Currently, the SHIPs—which are administered either through state insurance commissions or state agencies on aging—provide assistance through approximately 1,000 local organizations and 11,000 volunteers, and serve about 2.7 million Medicare beneficiaries. They receive \$11 million a year in base funding and, in recent years, an additional \$5 million annually to assist with increased Medicare+Choice demands. The federal funding amounts to less than \$10 per beneficiary served by the program. States often contribute additional funding.

Policy questions and view of the Commission

Are information coalitions likely to be a significantly better vehicle than the SHIPs for providing Medicare information to beneficiaries? Are purchasing coalitions likely to increase beneficiaries' bargaining power at the local level?

MedPAC finds that Medicare researchers, CMS, the SHIPs, and others agree that the current state of beneficiaries' knowledge of Medicare is poor and that Medicare's complexity and recent instability in the Medicare+Choice market make it very difficult to create informed and empowered consumers within the beneficiary population. However, based on information from an expert panel ³, interviews with the proponents of consumer coalitions, conversations with

³Under contract with MedPAC, Mathematica Policy Research, Inc. convened an expert panel on July 17, 2001 to examine the potential for Medicare consumer coalitions and to discuss the relevant issues. The panel consisted of representatives from national senior membership organizations, state and local senior education and advocacy groups, SHIPs, large private employers, health plans, health policy consultants, and health services researchers familiar with the private insurance market and small group purchasing pools.

CMS representatives, and a site visit to a local SHIP, MedPAC does not believe that funding demonstrations of consumer coalitions—either the information or the purchasing model—would be a high priority use of scarce demonstration resources.

Are information coalitions likely to be a significantly better vehicle than the SHIPs for providing Medicare information to beneficiaries? The Commission concludes:

More needs to be done to ensure that beneficiaries have adequate knowledge of Medicare and their Medicare supplemental options. According to recent studies, beneficiaries find it difficult to understand Medicare and supplemental insurance options. One study reports that, in all the communities surveyed, “interviewees overwhelmingly reported that most beneficiaries do not understand the basics of the Medicare program.”⁴ This is a serious problem, especially for the Medicare+Choice program, which depends on knowledgeable consumers making appropriate choices among alternative coverage options. Despite the importance of this task, local efforts to meet beneficiaries’ information needs continue to be uneven in capacity and effectiveness, and more needs to be done to focus attention on this issue.

However, at this point we have no reason to believe that Medicare information coalitions would produce substantial additional value beyond what the SHIPs could do with additional funding, and they could add another layer to an already complex system for providing beneficiary information. The proposed model for information coalitions is not different enough from what CMS, the SHIPs, and their partner organizations are already doing to warrant using scarce demonstration resources. In fact, local, non-profit organizations can already work within the current SHIP program to produce and disseminate beneficiary information. Furthermore, CMS and the SHIPs have already developed a national body of experience on features important to effective beneficiary communication: local information coalitions would have to redevelop much of this expertise to provide the services they propose.

Are purchasing coalitions likely to increase beneficiaries’ bargaining power at the local level? The Commission concludes:

Medicare purchasing coalitions would likely lack the leverage they would need to negotiate in local markets. While the need may exist for additional bargaining and purchasing agents to advocate for better benefits, lower costs, and more market stability for Medicare beneficiaries, the proposed purchasing coalitions would likely not be effective enough in achieving these goals to merit using scarce demonstration resources. In all likelihood, purchasing coalitions would not be able to maintain sufficiently large membership populations to extract many concessions from insurers. Furthermore, the voluntary nature of beneficiaries’ participation means that individual

⁴Stevens, B. and Mittler, J. Making Medicare+Choice Real: Understanding and Meeting the Information Needs of Beneficiaries at the Local Level. Mathematica Policy Research, Inc. November 2000.

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members could choose whether or not to enroll with an insurer even after the negotiations were completed, resulting in coalitions bringing both small and highly uncertain membership populations to the negotiations. Insurers suggest that the uncertain nature of the coalition memberships would cause them to charge higher premiums or to resist contracting with the coalitions altogether.

In conclusion, the Commission does not recommend funding demonstrations of consumer coalitions for the purposes of either information or purchasing at this time.

Sincerely,

Glenn M. Hackbarth, J.D.
Chairman

Enclosure

Identical letter sent to the Honorable Dennis Hastert

cc: Honorable Max Baucus, Chairman, Senate Committee on Finance
Honorable Charles E. Grassley, Ranking Member

Honorable William M. Thomas, Chairman, House Committee on Ways and Means
Honorable Charles B. Rangel, Ranking Member

Honorable Nancy L. Johnson, Chairman, Subcommittee on Health, House Committee on
Ways and Means
Honorable Pete Stark, Ranking Member

Honorable W.J. "Billy" Tauzin, Chairman, House Committee on Commerce
Honorable John D. Dingell, Ranking Member

Honorable Michael Bilirakis, Chairman, Subcommittee on Health, House Committee on
Commerce
Honorable Sherrod Brown, Ranking Member

Honorable Tommy G. Thompson, Secretary, U.S. Department of Health and Human
Services
Honorable Thomas A. Scully, Administrator, Centers for Medicare and Medicaid Services